



Audit Report



OIG-04-034

GENERAL MANAGEMENT: Summary Report on Weaknesses in Treasury Bureau Purchase Card Programs

June 18, 2004

Office of
Inspector General

Department of the Treasury

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Abbreviations

| | |
|---------|---|
| AO | Approving Officials |
| Customs | United States Customs Service |
| FAR | Federal Acquisition Regulation |
| FMS | Financial Management Service |
| Mint | United States Mint |
| OPE | Office of Procurement Executive |
| OCC | Office of the Comptroller of the Currency |
| OIG | Office of Inspector General |
| TD | Treasury Directive |

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*The Department of the Treasury
Office of Inspector General*

June 18, 2004

Jesus Delgado-Jenkins
Acting Assistant Secretary for Management

Barry K. Hudson
Acting Chief Financial Officer

This report summarizes significant findings from audits we conducted of the Government purchase card program at four Department of the Treasury bureaus--United States Mint (Mint), Financial Management Service (FMS), Office of the Comptroller of the Currency (OCC), and the divested U.S. Customs Service (Customs).¹ Our reports on these audits were issued over the period December 2002 through March 2004. A list of the reports is provided in Appendix 1.

For each of the audits, our objective was to determine if the bureau had adequate controls over its purchase card program to ensure the cards were used as intended. We reviewed purchase card program policies and procedures to determine if they were reasonably effective in preventing and detecting improper usage. This included conducting a review of transactions and cardholder records. Accordingly, we were able to comment specifically on exceptions to policies and procedures, such as purchases exceeding the single purchase limit and split purchases. The audits included a review and analysis of purchase card controls and transactions encompassing a period from September 1999 through March 2003. A more detailed description of each audit's objective, scope, and methodology is provided in Appendix 2.

¹ Customs was transferred to the Department of Homeland Security in March 2003 in accordance with the Homeland Security Act of 2002.

Results in Brief

Internal control weaknesses in bureau purchase card programs often led to improper and questionable purchases. We found weaknesses in bureau policies and procedures. We also found that bureau purchase card program policies and procedures were frequently not followed. The improper and questionable purchases we observed did not involve large dollar amounts. Nevertheless, we believe deviations from policies and procedures, coupled with a breakdown in internal controls to detect these deviations, make the bureaus and Department vulnerable to fraud, waste, and abuse.

We recommend that your office reemphasize to all bureaus their responsibilities in managing the purchase card program; assess whether additional Departmental guidance is needed; and direct all bureaus to assess the adequacy of their policies, procedures, and internal controls, and implement changes as necessary to ensure compliance with Departmental guidance. Your response to our draft report, included as Appendix 3, indicated you agreed and plan to implement the recommendations and work with the bureaus and offices to improve their purchase card programs.

Background

The Department of the Treasury purchase card program was established in accordance with an overall Government-wide effort to streamline Federal agency acquisition processes. The purchase card program was established in 1989 when the General Services Administration issued its first purchase card contract. The current version of the program is known as the *SmartPay Program*.

The use of purchase cards is designed to provide a low-cost, efficient vehicle for obtaining goods and services directly from vendors. The program operates in a manner similar to a personal credit card, but can only be used for official Government business. The purchase card is primarily used for micro-purchases, but may also be used for larger purchases.² Although most cardholders

² A micro-purchase is generally limited to \$2,500.

have single purchase transaction limits of \$2,500, some have limits up to \$25,000 or more. In 1998, Treasury selected *CitiBank* to provide all card services--purchase card, travel card, and fleet card--to its bureaus.

The *Federal Acquisition Regulation (FAR)*, Part 13, "Simplified Acquisition Procedures," establishes criteria for using purchase cards to place orders or payments. The FAR, Part 13.201(b), recommends agencies use the purchase card to the maximum extent practicable.

As a cost-cutting measure, in December 1993, Treasury directed all bureaus to begin using purchase cards for small purchases. Treasury issued Treasury Directive (TD) 76-04, *Government Purchase Card Program*, to provide bureaus guidance on the use of purchase cards. TD 76-04 states that the card is the preferable method for making micro-purchases. It also requires agencies to establish approved uses and limitations on the types of purchases and spending limits. The TD further requires a cardholder to receive training prior to receiving a purchase card. Using the Department's guidance, each bureau we audited established additional guidance for its employees. For example, FMS developed the *FMS Purchase Card Handbook* that was issued in March 2000. This manual, similar to guidance at other bureaus, is intended to outline responsibilities at each level for the program and describe related procedures and controls.

Finding and Recommendations

Weak Controls Resulted in Improper and Questionable Purchases

In examining transactions for compliance with purchase card policies and procedures, we identified internal control weaknesses that led to improper and questionable card usage by the bureaus, though the improper and questionable usage generally did not involve large dollar amounts or indicate fraud. The improper and questionable transactions often occurred because of weaknesses in

internal controls. We also noted that one bureau was using the check-writing feature of the card to pay recurring expenditures, a practice which may be more costly than other payment mechanisms.

Internal controls are the policies, procedures, techniques, and mechanisms that enforce management directives.³ These controls help to ensure that actions are taken to reduce risks, and include activities such as approvals, authorizations, verifications, and reconciliation. Among the more significant internal control weaknesses we found were inadequate separation of duties, purchases made without proper authorization, insufficient review of transaction documentation, inadequate internal guidance, and insufficient training.

Improper or Questionable Transactions

Through our transaction review, we found improper split purchases used to circumvent controls. Split purchases occur when the cardholder divides the purchase into two or more transactions to exceed the credit card spending limit. In some cases, a second cardholder may be involved. Some examples included the following:

- We found 15 improper split purchases at the Mint, totaling over \$100,000. Ten (10) of these split purchases occurred at the Philadelphia Mint facility. An example included \$5,431 spent on an item when the cardholder had a \$3,500 single purchase limit. An attempt was made to process the entire transaction. After the transaction was declined, the transaction was split into \$3,121 and \$2,310, which allowed the purchase to be processed. Also at this same location, we found large purchases split between two different cardholders in the same division.

³ According to GAO's *Standards for Internal Control in the Federal Government* (November 1999, GAO/AIMD-00-21.3.1), control activities are one of five standards for internal control. Internal control activities help ensure that employees carry out management directives. The control activities should effectively and efficiently accomplish agency control objectives. They include a wide range of diverse activities such as approvals, authorizations, verifications, reconciliation, and performance reviews.

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- At FMS, we found numerous split purchases that allowed the cardholders to exceed the card limits. For example, we found three purchases made within a 2-day period totaling \$4,422, exceeding the \$2,500 limit and competitive bidding threshold. We also found \$7,919 in purchases of construction services that were purchased the same day but had been split into five transactions.

We also identified improper purchases. For example, we found 11 transactions at the Mint involving prohibited gasoline and oil purchases. Also at the Mint, one cardholder spent \$115 at a grocery store on food items without written pre-approval as required.

Furthermore, we found questionable card usage. For example, we found purchases for things such as antique globes, flowers, bottled water, automotive repairs, food and beverages at restaurants, movie tickets, and gift cards.

Use of Card to Pay Recurring Expenditures May Not Be Cost Effective

We also found one bureau, OCC, used the check-writing feature to pay for large, recurring expenditures. This did not seem to be a very cost-effective use of the card. Using this feature, OCC incurred a cost of 1.25 percent of the transaction's face amount. From CitiBank records, we determined OCC spent nearly \$900,000 nationwide over a 28-month period using this feature, with fees totaling an estimated \$11,000. The cost to pay these expenditures could have likely been reduced considerably by using Treasury checks (at a cost of about 42 cents per check at the time) or electronic transfer (at a cost of about 2 cents per transfer).

Weak Internal Controls

Although internal controls were established to prevent the misuse of purchase cards, the controls were not always adequate or followed, resulting in card misuse. Among the weaknesses we found were inadequate internal guidance, inadequate separation of duties, purchases made without proper authorization, insufficient review of transaction documentation, and insufficient training.

Inadequate Internal Guidance. As mentioned earlier in this report, the bureaus developed their own guidance to ensure purchase cards were used as intended. However, we found in some areas that the guidance was inadequate.

For example, we determined that FMS had not sufficiently emphasized internal control activities in its *FMS Purchase Card Handbook*. The handbook did not have a requirement for Approving Officials (AO) to validate purchases or sign off on the reconciliation process. It also allowed sign off by a funding or budget official for purchases, rather than the unit manager or supervisor.

Another example involved the Mint. In developing its internal purchase card policy, the Mint did not include many of the core requirements established by the *Treasury Financial Manual*⁴ or TD 76-04. For example, the *Treasury Financial Manual* requires the managing office to annually review its program to identify and correct program weaknesses. The Mint did not have program review guidelines and did not consistently conduct annual reviews.

In addition, Customs did not include a formal step for documentation review as part of the AO responsibility in its purchase card process. As a result, we found that AOs did not review supporting documentation for purchases.

Inadequate Separation of Duties. Although many of the card transactions we reviewed were approved by an AO, others were not. In several cases, we found that cardholders were able to authorize their own purchases.

For example, FMS lacked fundamental separation of duties to prevent cardholders from performing incompatible functions. Consequently, some cardholders directed all aspects of a purchase card transaction from initiating purchases through approving final payment. Similarly, at Customs we identified numerous

⁴ The *Treasury Financial Manual*, issued by FMS, describes the fiscal responsibilities of Federal agencies by providing policies, procedures, and instructions.

transactions in which the purchase cardholder ordered, received, and paid for items.

At the Mint, of 132 cardholders we interviewed, 30 percent said they allowed others to use their cards. In some instances, cardholders shared cards with their AOs. As a result, in those situations, there was effectively no separation of duties.

Purchases Made Without Proper Authorization. Another observed control weakness at FMS involved purchase authorizations made by a funding/budget official rather than the unit manager or a supervisor authorized to approve purchases. At OCC, cardholders approved invoices for payment without proof of receipt for the merchandise or service, and purchases did not always have proper authorizations.

Insufficient Review of Transaction Documentation. The review of cardholder transaction documentation by an AO is a fundamental control. At Customs, most AOs at the locations we sampled were not reviewing actual paper receipts and/or invoices to determine if the amount billed was correct and that the purchase was for a valid need. Although review of transactions by the AO was the principal means for assuring that transactions were valid, we found the AOs were relying on the "online review" of the transaction statement in the purchase card system.

At OCC, required purchase logs were not properly maintained or were incomplete, and responsible officials did not follow policies and procedures when approving cardholder monthly bank statements.

Insufficient Training. Although we found instances in which policies and procedures were weak, we also found that in some areas, while the policies and procedures may have been sufficient, they were not being followed. One possible reason is a lack of understanding of program requirements. We found that AOs were not always properly trained regarding their role to ensure purchase card usage was proper.

For example, at the Mint we could not find evidence of AOs receiving a basic training course in purchase card usage, although all AOs had received refresher training. At Customs, we found that AOs for cardholders with credit limits under \$2,500 were not required to receive training. At FMS, we found deviations from prescribed policies and procedures that we believed could be addressed by providing AOs periodic training.

Summary of Observations

The table on the next page provides a summary of significant program conditions and internal control weaknesses we found at the bureaus we audited.

| | <u>FMS</u> | <u>Mint</u> | <u>OCC</u> | <u>Customs</u> |
|--|------------|-------------|------------|----------------|
| <u>Program Conditions</u> | | | | |
| Improper and questionable transactions (includes split purchases and questionable items) | X | X | X | X |
| <u>Internal Control Weaknesses</u> | | | | |
| Inadequate internal guidance | X | X | | X |
| Inadequate separation of duties | X | X | | X |
| Purchases made without proper authorization or oversight | X | X | X | X |
| No documentation to support purchases | | X | X | |
| Insufficient review of transaction documentation (receipts, invoices) | X | X | X | X |
| Untimely or insufficient supervisory approval or reconciliation | X | X | | X |
| Insufficient training | X | X | X | X |
| Non-compliance with policies, directives, and management practices | X | X | X | |

Source: Prior OIG audits (see Appendix 1).

Conclusion

The conditions summarized in this report suggest that the bureaus and, by extension, the Department were vulnerable to erroneous and improper payments, as well as possible fraud, waste, and abuse. Based on the pervasiveness of control deficiencies found at the four audited bureaus, we believe it would be prudent at this time for the Department to communicate these deficiencies to all

the bureaus and offices as well as the need for the bureaus and offices to ensure that adequate controls over their respective purchase card programs are established and enforced.

Recommendations

The Assistant Secretary for Management and Chief Financial Officer should:

1. Formally reiterate and emphasize to all bureau procurement managers their responsibilities in properly administering their purchase card programs.

Management Comment. The Office of Procurement Executive (OPE) concurred with our recommendation and will formally provide the report to Treasury's bureaus and offices for their information and action in improving their programs, and will emphasize the responsibilities associated with managing the purchase card program. The target date for accomplishment is upon receipt of the OIG report.

OIG Comment. The actions proposed by OPE satisfy the intent of our recommendation.

2. Assess whether additional Departmental guidance is needed to clarify what constitutes improper card usage, the impropriety of split purchases, the role of approving officials, and adequate separation of duties.

Management Comment. The OPE concurred with our recommendation and is currently reviewing Treasury's department-wide policy on use of the Government purchase card, Treasury Directive (TD) 76-04, to ensure that the guidance is current and adequate. The target date for reissuance of TD 76-04 is September 30, 2004.

OIG Comment. The actions proposed by OPE satisfy the intent of our recommendation.

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3. Request that bureau heads assess the adequacy of their policies, procedures, and internal control over their respective purchase card programs and implement changes as necessary to ensure compliance with Departmental guidance.

Management Comment. The OPE concurred with our recommendation and is conducting a gap analysis contrasting what constitutes a robust purchase card program with Treasury's current program. OPE is including in this analysis a review of policies, procedures, and internal controls. The analysis is being conducted with the participation of bureau procurement managers. OPE identified the target date for completion as in process, with plans to continue the action on a recurring basis. An OPE official told us, in a follow-up discussion, that the target date for the first iteration of the analysis is September 30, 2004.

OIG Comment. The actions proposed by OPE satisfy the intent of our recommendation.

* * * * *

We would like to extend our appreciation to the Acting Director, Office of the Procurement Executive, and members of her staff for the cooperation and courtesies extended to us during preparation of this summary report. If you have any questions, please contact me or Robert A. Taylor, Deputy Assistant Inspector General for Program Audits, at (202) 927-5400. The major contributors to this report were Donald P. Benson, Director, and Robert Mello, Audit Manager, Eastern Field Audit Office.

Marla A. Freedman
Assistant Inspector General for Audit

The following is a list of reports issued by our office on bureau purchase card programs with a link to a copy of the reports on our Web site:

- *OCC Purchase Card Usage at the Western District and Headquarters*, OIG-03-031, issued December 16, 2002.
<http://www.ustreas.gov/offices/inspector-general/audit-reports/2003/oig03031.pdf>
- *TREASURY'S GENERAL MANAGEMENT: Customs Purchase Card Program*, OIG-03-057, issued February 5, 2003.
<http://www.ustreas.gov/offices/inspector-general/audit-reports/2003/oig03057.pdf>
- *FINANCIAL MANAGEMENT: Purchase Card Internal Control Weaknesses Expose FMS Headquarters to Improper and Questionable Purchases*, OIG-04-014, issued December 19, 2003.
<http://www.ustreas.gov/offices/inspector-general/audit-reports/2004/oig04014.pdf>
- *MANUFACTURING OPERATIONS: Control Weaknesses and Poor Management Oversight in the Mint's Purchase Card Program*, OIG-04-029, issued March 2, 2004.
<http://www.ustreas.gov/offices/inspector-general/audit-reports/2004/oig04029.pdf>

The purpose of this report was to summarize purchase card audits conducted by our office during the last 2 years at four bureaus within the Department of the Treasury, and communicate an overall message of what we found to the Assistant Secretary for Management and Chief Financial Officer. The audited bureaus were the Mint, FMS, OCC, and the legacy United States Customs Service.

The overall objective of the four bureau audits was to determine whether the bureaus had adequate controls over the Government purchase card program. To achieve this objective, we reviewed applicable laws, regulations, directives, and manuals dealing with the bureau purchase card programs. We also sampled transactions from CitiBank's online database, and interviewed key bureau officials and staff. Our bureau audits were performed in accordance with generally accepted government auditing standards. More detail concerning the scope and methodology of the prior audits can be found in the individual bureau audit reports identified with hyperlinks to our Web site in Appendix 1.

After summarizing our prior audits, we discussed the results with the Acting Director, Office of the Procurement Executive, and the Department's Purchase Card Coordinator.

This summary report was prepared during the period January through March 2004 from the results of these bureau audits. The preparation and presentation of this report was also performed in accordance with generally accepted government auditing standards.

Appendix 3
Management Comments



DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

April 30, 2004

MEMORANDUM FOR MARLA A. FREEDMAN
ASSISTANT INSPECTOR GENERAL FOR AUDIT

FROM: Barry K. Hudson *B. Hudson*
Acting Chief Financial Officer

SUBJECT: Draft Summary Report on Weaknesses in Treasury
Bureau Purchase Card Programs

We have reviewed the Office of Inspector General draft audit report entitled "Summary Report on Weaknesses in Treasury Bureau Purchase Card Programs." We agree with the recommendations contained in the report. We will work with Treasury's Bureaus and Offices to implement the recommendations and to continue to improve the purchase card program.

We appreciate this opportunity to respond to the draft report recommendations. Our responses are as follows:

Recommendation 1. Formally reiterate and emphasize to all bureau procurement managers their responsibilities in properly administering their purchase card programs.

Response: The Office of the Procurement Executive (OPE) will formally provide the report to Treasury's Bureaus and Offices for their information and action in improving their programs, and will emphasize the responsibilities associated with managing the purchase card program. The target date for accomplishment is upon receipt of the OIG report.

Recommendation 2. Assess whether additional Departmental guidance is needed to clarify what constitutes improper card usage, the impropriety of split purchases, the role of approving officials, and adequate separation of duties.

Response: We are currently reviewing Treasury's department-wide policy on use of the Government purchase card, Treasury Directive (TD) 76-04, to ensure that the guidance is current and adequate. Additional guidance, to the extent needed, will be incorporated into the revision. The target date for re-issue of TD 76-04 is September 30, 2004.

Appendix 3
Management Comments

Recommendation 3. Request that bureau heads assess the adequacy of their policies, procedures, and internal control over their respective purchase card programs and implement changes as necessary to ensure compliance with Departmental guidance.

OPE is conducting a gap analysis contrasting what constitutes a robust Purchase Card Program against where Treasury's program currently stands. Included in this analysis is a review of policies, procedures, and internal controls. The analysis is being conducted with the participation of bureau procurement managers. We will ensure that bureau heads are aware of this analysis and work with them to fill the gaps. In addition, the second quarter management control report highlighted this issue and has been distributed to bureau heads and executives across the Department. Target Date: This effort is in process now and will continue on a recurring basis.

cc: Jesus H. Delgado-Jenkins, Acting Assistant Secretary for Management
James Angel, Director Internal Control

Department of the Treasury

Acting Assistant Secretary for Management
Acting Chief Financial Officer
Office of the Procurement Executive
Office of Strategic Planning and Evaluations
Office of Accounting and Internal Control

Office of Management and Budget

OIG Budget Examiner